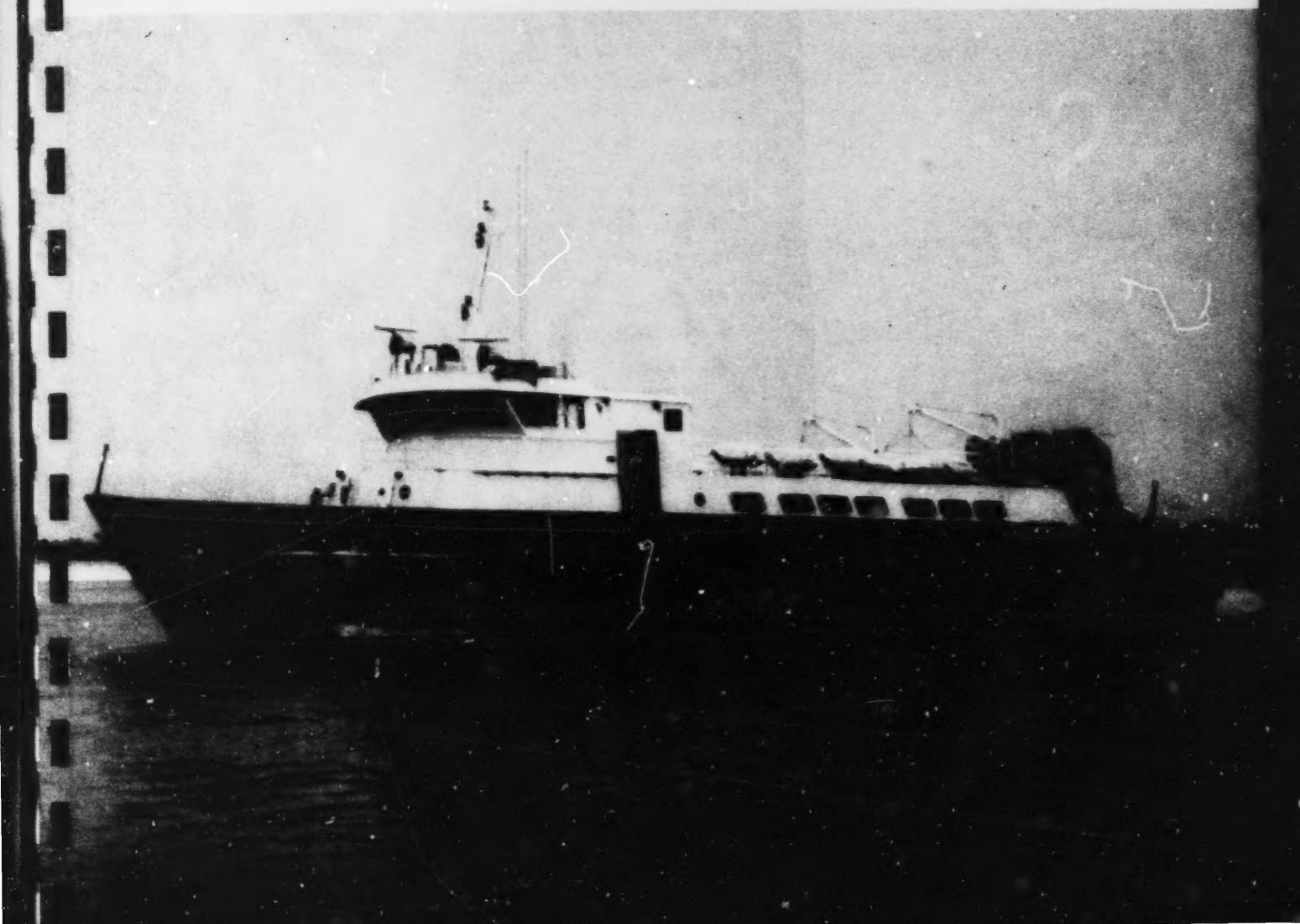
ANNUAL REPORT

MARCH 31, 1984

GEORGETOWN SHIPYARD INC.



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FRONT COVER: 125 ft aluminum passenger ferry "M/V Marine Courier" constructed by Georgetown Shipyard Inc. for CN Marine Inc.

ANNUAL REPORT

GEORGETOWN SHIPYARD INC.

March 31, 1984

Established by an Act of the Provincial Legislature (23 Eliz. II (2) Cap. 71)

Executive Council under authority of Section 12 did order and issue a Proclamation proclaiming the said "Act to Incorporate Georgetown Shipyard Inc." to come into force effective 5 December 1974.

GEORGETOWN SHIPYARD INC.
P.O. Box 220
Georgetown
Prince Edward Island
COA 1L0

DIRECTORS OF GEORGETOWN SHIPYARD INC.

AS AT MARCH 31, 1984

J. David Stewart, Chairman

Keith T.N. Lapp, Vice Chairman

Phillip Wood

Carter Van Iderstine

Beverley Simpson

Johnnie Williams

The Honourable Pat Binns
Minister Responsible for Georgetown Shipyard
P.O. Box 2000
Charlottetown, P.E.I.
C1A 7N8

Sir:

In accordance with the provisions of the "Act to Incorporate Georgetown Shipyard Inc.", we have the honour to submit the Annual Report of Georgetown Shipyard Inc. for the fiscal year ending March 31, 1984.

The financial statements for the fiscal year ended March 31, 1984 showed net sales revenue of $6,402,663 and a net loss of $293,768 after depreciation of $102,014 and bank interest of $100,521. This compared to our original projection of a $138,000 loss which assumed a new hull would be started in October 1983. Although the shipbuilding, ship repair and industrial product lines all were profitable, a lack of a major new shipbuilding order after the delivery of Hull 44 (125 ft aluminum ferry for CN Marine) resulted in a serious underabsorption of overhead expenses in the last three months of the fiscal year, accounting for the increase in the net loss over the original projection. In spite of this, the Company contributed $2.7 million to the economy of Prince Edward Island during the 1984 fiscal year, consisting of $1.8 million in salaries and wages and $0.9 million in purchases of material, equipment, supplies and services.

Major capital goods are the last segment of the economy to feel the full effects of a recession and are normally the last to recover from a recession. This is due primarily to the relatively high dollar values and the long lead times involved. Commercial shipbuilding falls into this category and there is no indication that the shipbuilding demand will begin an economic recovery in the near future.

The problem was recognized by the federal government and a procurement program for upgrading Canada's fleet of vessels was introduced under the Special Recovery Capital Project Program in the 1983 budget. The Company was pleased to have been awarded the contract in the amount of $4,073,112 under this program for the construction of a 30 meter twin hull Acoustic Sweep Vessel for the Department of Fisheries and Oceans (hydrographic and oceanographic duties). Our tender price was the lowest submitted from several Canadian Shipyards. The contract was formally signed on February 6, 1984.

Indications are that several other requests for proposal will be coming out from the federal government for new vessels in our size range under this program in the forthcoming fiscal year.

The fishing industry is going through a serious readjustment problem, and, although a latent demand is building up, a fishing vessel replacement program is not projected to start for another three to five years.

Because of the generally depressed state of the shipbuilding in Canada (and indeed worldwide), the competition for the available business will be very keen over the next two to three years and the prices very low.

The ship repair market available to Georgetown Shipyard was down substantially this past fiscal year. The main reasons were:

1. The primary demand for the 600 ton marine railway was the side trawler and small stern trawler. As reported for the past several years, these trawlers are obsolete and will be withdrawn from service and replaced with stern trawlers too large for us to dock. This forecast has now become fact as many of these vessels are no longer fishing.

2. The Georgetown government wharf was destroyed by fire on August 5, 1983. This wharf was used by the shipyard to outfit new vessels and to carry out alongside refits and repairs of vessels, including major refits on vessels too large to haul on our marine railway. The very small part of the wharf remaining can accommodate only small vessels and must be shared with other users of the wharf. The Company will no longer be able to bid on large alongside conversion and refits until the wharf is replaced. The earliest projection for the replacement of the wharf is the summer of 1986.

3. The general recession in Canada and the serious problems in the fishing industry further reduced the ship repair demand. Vessel owners deferred major repairs and refits and carried out only the necessities to keep their vessels operational.

The shipbuilding production activity in the fiscal year was the construction and delivery of Hull 44 (125 ft high speed aluminum passenger ferry for CN Marine Inc.). After the vessel's departure from Georgetown in early January 1984, the shipyard was left with idle shipbuilding capacity. The new order for the Department of Fisheries and Ocean's vessel had no effect on production in the fiscal year ending March 31, 1984 but will give a good base of production in the new fiscal year.

The ship repair production was high in the first six months of the fiscal year as work continued on the contract for the conversion and major welding repairs on the fisheries research vessel "Louis M. Lauzier" (ex "Cape Harrison"). Other ship repair production was down substantially from the two previous years.

The Union Agreement expired on February 29, 1984. Although management-union relations remain good, the Company and the Union have not as yet been able to conclude a new agreement.

A Task Force established to examine the feasibility of expanding dry docking capacity at Georgetown Shipyard and made up of representatives of the federal and provincial governments and the shipyard submitted a report to the two levels of government on April 28, 1983. The report recommended "that a 2000 tonne syncrolift, with supporting equipment, be purchased and installed by Georgetown Shipyard Inc.". It stated that improvements were necessary if Georgetown Shipyard was to become a viable and profitable enterprise; otherwise, if no action is taken, the Company would face diminishing markets, reduced levels of employment and increasing losses. Although there were some negotiations between the federal and provincial government, the funding of the recommended improvements to the shipyard's facilities has not yet been resolved. The Board of Directors strongly supports the recommendations of the report and urges that the funding of the project be addressed by both levels of government at as early a date as possible. As noted earlier in this report, the shipyard has already felt the effects of a diminishing ship repair market.

Considering the depressed market and the limited facilities, the Board of Directors is generally pleased with the results of the operations over the past few years. However, we believe the upgraded capacity is essential if the Company is ever to have an opportunity to return to a profitable position. The projected new shipbuilding and repair market when it recovers will be for larger vessels and if the Company can not participate in it, the operation will continue to remain marginal at best.

I would like to extend my thanks to the tradesmen, staff and management at Georgetown Shipyard and also my fellow Board members for their support and efforts in the operation of the shipyard during the past year.

Respectfully submitted,

J. David Stewart
Chairman

GEORGETOWN SHIPYARD INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

MARCH 31, 1984

May 9, 1984

AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have examined the statement of financial position of Georgetown Shipyard Inc. as at March 31, 1984 and the statements of surplus (deficit), earnings, changes in financial position and related schedules for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the financial statements and the notes appended thereto present fairly the financial position of the corporation as at March 31, 1984 and the results of its operations and changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

GEORGETOWN SHIPYARD INC.

STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 1984

ASSETS

	1984 $	1983 $
CURRENT ASSETS		
Accounts receivable less allowance for doubtful accounts — 1984 - $64,582; 1983 - $1,200 (note 4)	1,022,602	877,736
Inventory of materials	433,582	491,055
Incomplete contracts net - (note 2)	64,871	—
Warranty deposit	15,926	50,000
Prepaid expenses and sundry assets	76,987	99,975
	1,613,968	1,518,766
OTHER ASSETS	44,129	50,022
FIXED ASSETS (note 3)	612,446	669,062
	2,270,543	2,237,850

LIABILITIES

CURRENT LIABILITIES		
Bank advances (note 4)	1,176,139	700,376
Accounts payable and accrued liabilities	715,937	695,035
Current portion of conditional sales contract	22,802	30,403
Incomplete contracts net - (note 2)	—	301,630
	1,914,878	1,727,444
A.D.B. LOAN - WATER SUPPLY SYSTEM	44,129	47,071
NON INTEREST BEARING ADVANCE FROM THE PROVINCE OF PRINCE EDWARD ISLAND	578,246	578,246
CONDITIONAL SALES CONTRACT (Less: Current portion)	—	22,802
APPRAISAL INCREASE CREDIT (note 3b)	27,058	29,952
	2,564,311	2,405,515
DEFICIT - DUE FROM THE PROVINCE OF PRINCE EDWARD ISLAND	293,768	167,665
	2,270,543	2,237,850

SIGNED ON BEHALF OF THE BOARD

_____
Director

_____
Director

GEORGETOWN SHIPYARD INC.

STATEMENT OF SURPLUS (DEFICIT)

DUE FROM THE PROVINCE OF PRINCE EDWARD ISLAND

FOR THE YEAR ENDED MARCH 31, 1984

	1984	1983
	$	$
BALANCE - BEGINNING OF YEAR	(167,665)	3,428
Advances from The Province of Prince Edward Island as payment towards the accumulated losses of the Shipyard	167,665	—
	—	3,428
Net loss for the year	293,768	171,093
BALANCE - END OF YEAR	(293,763)	(167,665)

GEORGETOWN SHIPYARD INC.

STATEMENT OF EARNINGS

FOR THE YEAR ENDED MARCH 31, 1984

	Hull Contracts $	Repair Contracts $	Industrial Contracts $	Total 1984 $	Total 1983 $
BILLINGS					
Made during the year	3,226,719	1,379,690	117,372	4,723,781	4,231,466
Decrease (increase) in billings made on incomplete contracts					
Opening balances	1,118,485	547,492	22,490	1,688,467	1,024,445
Closing Balances	—	9,585	—	9,585	1,688,467
	1,118,485	537,907	22,490	1,678,882	(664,022)
Net sales - completed contracts	4,345,204	1,917,597	139,862	6,402,663	3,567,444
COSTS					
Incurred during the year	3,610,348	1,153,110	75,764	4,839,222	3,204,733
Decrease in costs incurred on incomplete contracts					
Opening balances	741,704	621,723	23,410	1,386,837	1,387,329
Closing balances	20,080	54,376	—	74,456	1,386,837
	721,624	567,347	23,410	1,312,381	492
Net costs - completed contracts	4,331,972	1,720,457	99,174	6,151,603	3,205,225
GROSS PROFIT - COMPLETED CONTRACTS	13,232	197,140	40,688	251,060	362,219
OTHER INCOME				11,159	4,781
				262,219	367,000
EXPENSES (schedule)				1,614,028	1,454,012
Less: Applied to cost of sales and work in process				1,058,041	915,919
UNABSORBED EXPENSES				555,987	538,093
NET EARNINGS FOR THE YEAR				(293,768)	(171,093)

GEORGETOWN SHIPYARD INC.

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED MARCH 31, 1984

	1984	1983
	$	$
SOURCE OF WORKING CAPITAL		
Payment received from The Province of Prince Edward Island	167,665	—
Increase in long-term debt	—	53,205
Decrease in other assets	5,893	62,452
	173,558	115,657
USE OF WORKING CAPITAL		
Used in operations -		
Net loss for the year	293,768	171,093
Item not affecting working capital		
Depreciation	102,014	111,888
	191,754	59,205
Purchase of fixed assets - net	48,292	129,405
Reduction of A.D.B. loan - water supply	2,942	2,942
Increase (decrease) in current Portion of long-term debt	(7,601)	30,403
Payments on long-term debt	30,403	—
	265,790	221,955
DECREASE IN WORKING CAPITAL	92,232	106,298
WORKING CAPITAL DEFICIENCY - BEGINNING OF YEAR	208,678	102,380
WORKING CAPITAL DEFICIENCY - END OF YEAR	300,910	208,678

GEORGETOWN SHIPYARD INC.

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED MARCH 31, 1984

	1984	1983
	$	$
Salaries, wages and benefits	833,341	771,569
Utilities	108,459	119,151
Security	61,314	56,528
Office and postage	30,649	16,404
Repairs and maintenance	131,095	93,433
Advertising and promotion	23,740	20,889
Supplies and small tools	105,227	74,339
Travel	29,127	25,923
Insurance	33,377	36,312
Taxes	4,029	20,501
Rentals	17,900	23,602
Directors fees and expenses	19,760	18,926
Professional fees	6,911	22,485
Bad debts	3,600	—
Interest and bank charges	100,521	39,859
Truck expense	9,688	10,574
Inventory adjustment account	(19,275)	(19,317)
Miscellaneous	12,551	10,946
Depreciation	102,014	111,888
	1,614,028	1,454,012

GEORGETOWN SHIPYARD INC.

NOTES TO FINANCIAL STATEMENT

FOR THE YEAR ENDED MARCH 31, 1984

1. ACCOUNTING POLICIES

Long-term shipbuilding contracts -
The Shipyard follows the completed contract method of accounting for revenues and expenses relating to contracts. Under this method progress billings on incomplete contracts less costs are included as a current liability and costs in excess of progress billings are recorded as a current asset. Income is recorded when a contract has been completed, however, any anticipated or known losses are recorded by way of a provision at the time they are known.

Inventories -

Inventories are valued at the lower of cost and market. Cost is defined as average cost. Market is defined as replacement cost.

Depreciation -

Depreciation of fixed assets is calculated using the straight line method at the annual rate of 4% for land improvements, 4% for steel and block frame buildings, 6 2/3% for wood frame buildings, 12.5% for the launchway, 20% for the machinery and equipment and 10% for the tug.

2. INCOMPLETE CONTRACTS

	Hull 45 $	Repair Contracts $	Industrial Contracts $	Total 1984 $	Total 1983 $
Progress billings - Net of federal sales tax...	—	9,585	—	9,585	1,688,467
Costs -					
Material...	8,864	23,292	—	32,156	864,391
Labor.....	5,626	13,830	—	19,456	260,929
Overhead..	5,590	17,254	—	22,844	261,517
	20,080	54,376	—	74,456	1,386,837
PROGRESS BILLINGS IN EXCESS OF (LESS THAN) COSTS	(20,080)	(44,791)	—	(64,871)	301,630

GEORGETOWN SHIPYARD INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1984

3. FIXED ASSETS

(a) These are classfiied as follows:

	1984			1983
	Recorded Value	Accumulated depreciation	Net	Net
	$	$	$	$
Land and improvements.....	123,088	19,201	103,887	118,004
Buildings	626,696	258,918	367,778	377,401
Launchway	115,048	105,607	9,441	12,583
Machinery and equipment...	686,165	561,607	124,558	151,576
Tug.....	27,163	20,381	6,782	9,498
	1,578,160	965,714	612,446	669,062

(b) The land and land improvements, buildings and launchway are recorded at appraised values established January 24, 1974 plus subsequent additions at cost less disposals at the recorded value, excepting the new stores building which is recorded at its actual cost.

The excess appraised value over the original recorded value is $48,240 and the resulting credit is shown as an appraisal increase credit less amortization of $21,182 accumulated to date.

4. SECURITY FOR BANK ADVANCES

Bank advances are secured by guarantees, expiring March 31, 1985 from the Province of Prince Edward Island to the extent of $1,500,000 and a general assignment of accounts receivable.